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UNCLAS HARARE 001762

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EINV PGOV ZI
SUBJECT: Zimbabwe Economic Policy: Is Rigor Mortis Setting In?

¶1. (SBU) Summary: As with directionless negotiations about negotiations in the political sphere, the GOZ keeps boasting of meaningful economic reform that it never gets around to. Long-promised initiatives - more banknotes, devaluation, better land reform, the return of fuel and less public spending - go nowhere. End Summary.

¶2. (SBU) We update these key areas below:

- Banknote shortage. The GOZ continues to insist it will print and circulate new Z$1,000 and 500 notes in October. However, monthly inflation is 33 percent and rising. If the GOZ sticks to these measly denominations - worth only cents on the U.S. dollar - we see no prospect it can keep pace with inflation, let along get ahead of it. Instead the GOZ has been backtracking in recent weeks, claiming it will withdraw existing Z$500 notes from circulation (90 percent of existing money's value) or prohibit organizations from cash withdrawals.

- Overvalued currency. The GOZ requires exporters to exchange 50 percent of earnings at Z$824:US$1, an enormous indirect tax. After devaluing for export transactions from Z$55 to 824:US$1 in February, the GOZ committed itself to quarterly reviews of the exchange rate. None has taken place, even though the parallel market rate has slipped from about Z$1500 to 5600:US$1.

- Rationalizing land reform. Zimbabwe's agricultural sector, once so robust that this little country became the world's top tobacco exporter, is in shambles. Most damage has been caused by the GOZ's mangled land reform. The present model is untenable (beneficiaries never get title-deed) and insiders have literally handpicked multiple farms for themselves. President Mugabe has appointed a commission to investigate abuses and make recommendations, but the commission's long-anticipated report has been repeatedly delayed. Meanwhile, the GOZ continues to seize new farms, particularly those of agro-businesses.

- Fuel shortage. Zimbabwe's gas stations have been dry for almost 5 months. The GOZ recently boosted the fuel price from Z$450 to 1,170/liter, but the market price is around Z$1,700. A supernatural force seems to prevent the GOZ from approving a price higher than two-thirds of the international market price; still, the GOZ has raised the fuel price 17-fold this year. (It upped the price to Z$450 in February when the market cost was Z$650.) In the end, this accomplishes nothing. BP, ChevronTexaco and ExxonMobil have little interest in selling at a loss, even a reduced one.

- Near-hyperinflation. The GOZ continues to overspend, mostly by holding interest rates artificially low (324 percent negative) for its own borrowing purposes. Without allowing interest rates to rise, we see no way it can take control of inflation. Again, we see backtracking: Pro-GOZ economists argue in the official press for lower interest rates to spur growth, a policy that is already failing.

¶3. (SBU) Comment: We are skeptical President Mugabe will make the tough choices to get the economy moving again. He would have to acknowledge that his currency is worth only Z$5600:US$1, that land reform has crippled most of the agricultural sector, that the GOZ chronically overspends. So far, Mugabe's most ambitious economic initiative has been quarterly trips to Libya to beg for free fuel. (If the Republic of South Africa were not supplying free electricity, it is likely the GOZ would have yet another major crisis to contend with.) Meanwhile, we continue to marvel at the GOZ's tenacity in imposing economic sanctions upon itself, all far more de